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Report Highlights:
In 2006, the EU instituted the first major sugar reform since the regime's inception, reducing price support for sugar by 36 percent while offering direct payments and quota buy-outs to growers and processors. In-quota sugar production has decreased by about 5.5 million MT, and exports have plummeted in response to reformed limits on quantity. Imports have remained largely unchanged. As such, the EU has gone from being a net exporter to a net importer of sugar. Internally, the reform has altered the market structure for EU sugar producers as more quota has been renounced in areas less favorable for sugar production than in more productive areas. Demand for bioethanol derived from sugar beet is giving growers and processors an option to remain in sugar.

Commodities:

Sugar, Centrifugal

Author Defined:

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Introduction

In 2006, in response to mounting pressure from the WTO, the EU instituted the first major sugar reform since the regime's inception. The reform lasts until MY [1] 2009/10 and reduces price support for sugar by 36 percent while offering direct payments and quota buy-outs to growers and processors. In-quota sugar production has decreased by about 5.5 million MT, and exports have plummeted in response to reformed limits on quantity. Imports have remained largely unchanged. As such, the EU has gone from being a net exporter to a net importer of sugar.

Internally, the sugar regime reform has altered the market structure for EU sugar producers, as more quota has been renounced in areas less favorable for sugar production (e.g. Mediterranean and Eastern European countries) than in more productive areas (e.g. Germany and France). Because of the overall reduction in production, the reform has also changed the composition of internal trade flows as sugar-deficit member states can no longer rely on imports from surplus member states' sugar. Demand for bioethanol derived from sugar beet is giving growers and processors an option to remain in sugar.

Least Developed Countries (LDCs) are set to receive open access to EU markets beginning October 2009 under the Everything-but-Arms [2] (EBA) concession. The agreement, signed by the 50 LDCs, which includes 25 sugar producing countries, allows for duty and quota-free access beginning in 2009. However, the benefits of the improved access are muted for sugar exporters because of the reform's price cuts.

The reform has only changed market access for imported sugar from LDCs/EBA as the prohibitive import duties for white (€ 419/MT) and raw sugar (€ 339/MT) remain at the WTO bound rate for non-preferential states.

Background to reform

The EU's sugar regime, created in 1968, has been highly criticized both internally and externally for its overproduction, regulated prices, export refunds and discriminatory trade agreements with former European colonies. EU sugar sold at prices three times higher than the world price [3] , which encouraged production even in adverse agronomic areas for beet growing. The oversupply of EU sugar created unsustainable market conditions in which 5-6 million MT of sugar were put on the world market [4] , suppressing world prices for white sugar. The EU issued export refunds to close the gap between the world price and EU prices on 2.6 million MT of the C-Sugar (or sugar produced out of quota). In September 2004, the WTO ruled [5] that the EU was in breach of its export limits and had been cross-subsidizing its C sugar exports by high A and B (or in-quota) sugar prices. The European Commission used the WTO ruling as a springboard to address the Sugar Regime, which was the last major agricultural sector in the CAP to be reformed. Also, if prices were to remain high, the expected influx of sugar from LDCs under the EBA agreement would cause severe oversupply. In light of these considerations, the Commission proposed a radical reform [6] in 2005 that addressed WTO compatibility, member state interests, ACP policies and interests of LDCs under the EBA agreement. The EU Agriculture ministers adopted the reform in February 2006 to last over a four year transition period from July 1, 2006 to September 30, 2010. The main goals of the reform are to:

i. Align the sugar regime with the Common Agricultural Policy (CAP), which would make future reforms to the CAP apply to the sugar regime.
ii. Curtail production and create a more sustainable and competitive market.
iii. Limit C-Sugar exports to fall within WTO guidelines.
iv. Prepare for the impending influx of sugar imports from LDCs under the EBA concession.

The reform's impact on the EU

A. Production

Table 1	Pre-reform	2006/07 (July-Sept)	2007/08 (Oct-Sept)	2008/09 (Oct-Sept)	2009/10 (Oct-Sept)
Reference Price for white sugar (€/MT)	632	505	458	428	404
Reference Price raw sugar (€/MT)	524	497	497	449	335
Restructuring Aid (per MT of quota renounced) (€/MT)	730	730	625	520	-
Quota renounced (Cumulative) (MT)	-	1,469,612.5	2,178,379.6	5,512,174.2	n.a.
Production of sugar and isoglucose (Yearly) (MT)	-	17,658,000	14,913,000	13,675,000	n.a.

Table 1 Data collected from Agra Informa CAP Monitor and DG Agriculture

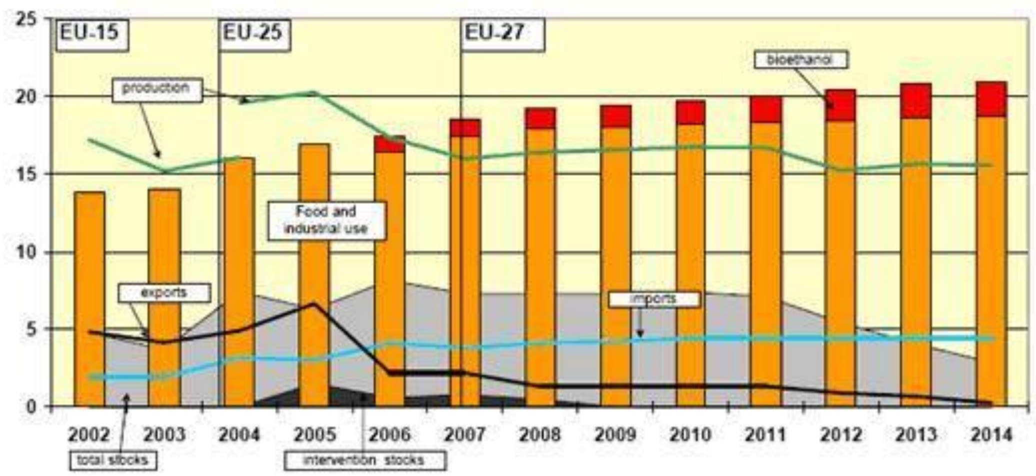
The structure of the price cuts and payouts, outlined in Table 1, encourages growers to renounce quota early. The Commission has almost reached its goal of 6 million MT of quota renounced, reducing in-quota sugar to about 13.6 million MT.

As intended, the reform displaced many inefficient sugar producers in member states that do not have favorable agronomic conditions for sugar beet production. Seventy five sugar factories in the EU, (accounting for over one third of total sugar factories in the EU) have closed. While the Commission estimated about 4,500 to 6,500 jobs lost, European Trade Unions assert those figures are grossly underestimated [7] . Production of inulin syrup has ceased in France, Belgium and the Netherlands, while Bulgaria, Ireland, Latvia and Slovenia have returned their entire inulin quota.

However, some sugar production in less-favorable areas remains. Finland, Lithuania, Spain, and parts of Poland renounced some but not their entire quota, forcing higher-yielding producers in France and Germany to renounce quota (see section '*Market situation in selected member states'*). In 2007, to encourage more renunciations, the Commission issued further incentives to growers along with the threat of a compulsory across-the-board quota cut in effect in 2010/11.

A. Sugar beet production for ethanol

Figure A:
Development in the EU sugar market 2002-2014 (million tons)



Source: DG Agriculture, Prospects for agricultural markets and income 2007-2014.

Sugar beet production for ethanol is not subject to sugar regime quota, though only about 800,000 MT are currently produced in the EU. In certain areas, demand for ethanol has encouraged enough sugar beet production to make up for the loss of sugar quota. Beet growers provide manufacturers with feedstocks in Germany where producers of ethyl alcohol from agricultural origin are granted national aid. Planted area of sugar beet in France has remained the same despite the reduction in quota because of demand for bioethanol.

Overall, strong expansion for bioethanol production from sugar beet is expected to remain in these and other competitive areas like Belgium. The Commission forecasted an increase in sugar for ethanol to 2.2 million MT by 2014, assuming a constant worldwide expansion of biofuel demand (Figure A). While bioethanol is currently stabilizing Community sugar production, the situation may change depending on future investment decisions [8] .

The *Directive of the European Parliament and of the Council on the promotion of the use of energy from renewable sources* which was adopted on April 6, 2009, provides *inter alia* that feedstock for the production of biofuel must meet certain sustainability criteria, including for example the reduction of greenhouse gas (GHG) emissions by at least 35 percent. Ethanol from sugar beet is calculated to have a default GHG saving of 52 percent. Member states are required to bring into force the laws, regulations and administrative provisions necessary to comply with the Directive by March 31, 2010 at the latest. It is understood that Germany has already notified draft legislation on sustainability criteria, and the Netherlands are also fairly well advanced.

A. Trade – EU now a net importer

EU-27 Sugar Trade (Oct/Sept: '000 MT)					
IMPORTS	**2003/04**	**2004/05**	**2005/06**	**2006/07 [9]**	**2007/08**

Sugar imports total	1,992	2,549	2,630	4,338	3,650
Raw sugar imports, total	1,742	1,807	1,950	3,495	2,950
White sugar imports, total	250	742	680	843	700
EXPORTS	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Sugar exports total	4,715	6,028	8,345	2,162	1,386
Raw sugar exports, total	15	3	20	5	5
White sugar exports, total	4,700	6,025	8,325	2,157	1,381

Table 2 Source: Post estimates from EU FAS posts

Because of the reductions in sugar production, the EU has gone from being a net exporter to a substantial net importer. In MY 2005/06, the EU was a net exporter of over 5.7 million MT, but by MY 2007/08 it was a net importer. The EU is expected to increase imports to a level approaching 4 million MT in the near future, as sugar deficit regions in the EU which previously relied on surplus EU sugar must look elsewhere for sugar supplies. Duty-free imports from countries under Economic Partnership Agreements (EPAs) and the EBA will begin on October 1, 2009, although it remains unclear how quickly those changes will impact the sugar market.

White and raw sugar imports fell in MY 2007/08 despite decreased production due to excess stocks from previous cycles. White sugar imports from Africa doubled, while supply from Serbia and Croatia fell. The reform's price reductions may lead to further decreases from Baltic countries.

For EU refiners that import raw sugar, the reform is changing the arrangements for their Traditional Supply Needs [10] (TSN's). These are supply quotas of 2.4 million MT of raw sugar for cane sugar refineries in member states [11] . Beginning MY 2009/10, quota will not be specified for each country as is the status quo, but by EU total. Further, EU raw sugar cane refineries will no longer have a monopoly on ACP import licenses beginning October 2009, though the full-time refiners have exclusive rights to obtain import licenses for the first three months of the MY. However, these rights will not be very useful as most exporters have longstanding contracts that extend through the time of privileged access.

The reform has diminished C-sugar exports to 1.6 million MT allowed by the WTO and has cut out export refunds as of MY 2008/09. Also, the makeup of destinations for exported sugar has changed. The share of exports to Asia rose by a third in MY 2007/08, bringing the share region closer to pre-reform levels above 50 percent, while the share of exports to the Americas and Africa fell by a third.
Overall, the reduction of cheap white sugar from the EU has caused a shift in the international market away from white sugar trade to raw sugar. White exports have reduced by around 5 million MT from MY 2005/06 to MY 2008/09 while raw sugar exports

have risen from 25.6 million MT in MY 2005/06 to close to 29 million MT in MY 2008/09. This change has spurred developments of raw sugar refineries in the Middle East and North Africa, which are large deficit regions, as the premium between white and raw sugar has increased. Israel, an important recipient of EU sugar, has opened a sugar refinery owned jointly by Gadot of Israel and UK firm Tate & Lyle. The effort is an example of EU firms adjusting to restrictions on exports by moving processing abroad, and may decrease demand for white sugar imports in those countries [12] .

A. Processed products containing sugar

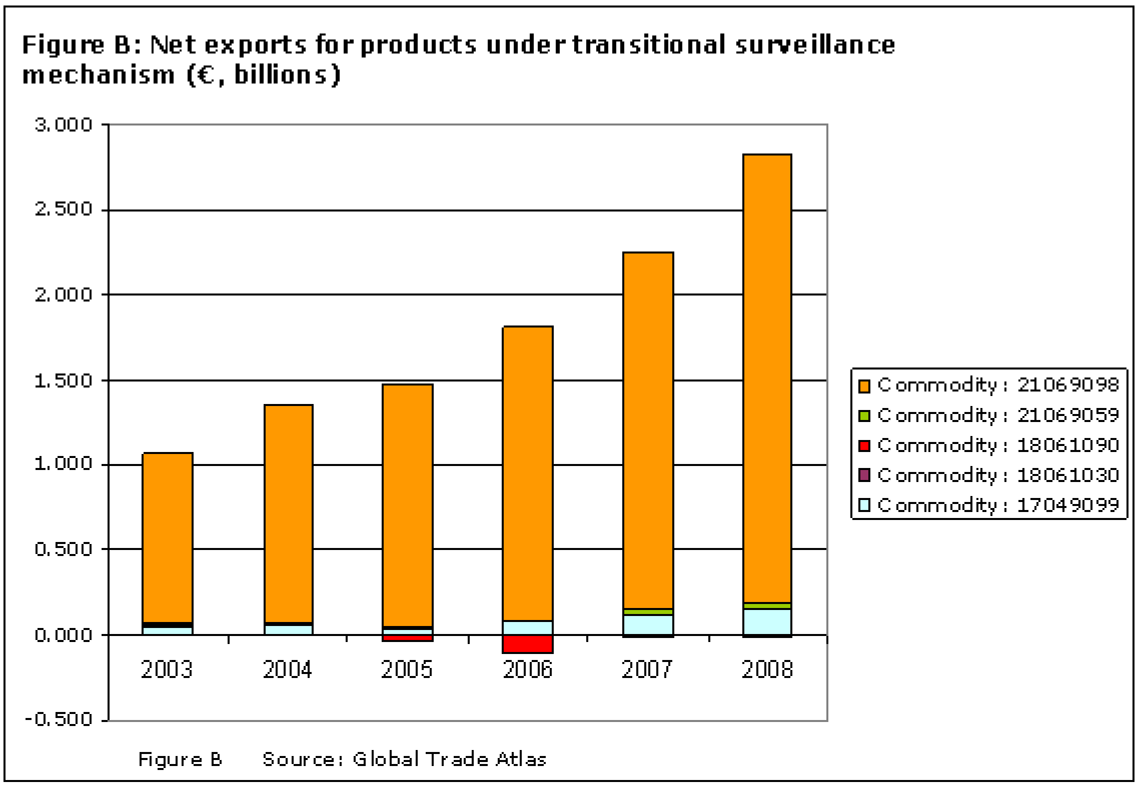


Figure B: Net exports for products under transitional surveillance mechanism (€, billions)

A recent trend in EU agriculture is to shift out of bulk production and focus on 'food quality' standards, as the Commission stated explicitly in their Green Paper on agricultural product quality [13] . The sugar regime reform follows this trend, as decreased price supports and reduced EU production allow for value-added industries to use cheaper sugar inputs. Meanwhile, import duties for processed products containing sugar remain, as do export refunds for most of these products. A list of products eligible for export refunds may be found in Regulation 1234/2007 [14] .

To avoid EPA imports that have might 'circumvent the tariff rate quotas' through high sugar-content products, the Commission introduced transitional surveillance mechanisms [15] on a list of import products [16] , such as sweetened cocoa powder and flavored sugar syrups. In case of a cumulative increase of imports of one or more of the products concerned by over 20 percent in volume from the previous twelve-month period, the EU could suspend duty-free access from these countries.

Figure B illustrates the net export value of the products under the transitional surveillance mechanism. The EU runs a net deficit in sweetened cocoa powder containing more than 80 percent sugar content (Commodity 18061090), though it has drastically shrunk since 2006 (and in 2008 reached a net surplus in MT of sweetener exported, though the net value was still in the red). Other net surpluses in export value have grown for food preparations containing sugar and pastes, nearly reaching 3 trillion USD in 2008.

The simultaneous growth in the export market for processed products containing sugar and diminishment of raw sugar production affirms the trend that EU agriculture is liberalizing markets for cheaper raw materials and focusing instead on 'quality' products.

(Data are expressed in raw sugar equivalents unless otherwise mentioned)

EU27 Sugar, Centrifugal (1000 MT)						
	2007/08		**2008/09**		**2009/10**	
	USDA Official [Old]	**Post Estimate [New]**	**USDA Official [Old]**	**Post Estimate [New]**	**USDA Official [Old]**	**Post Estimate [New]**
Marketing Year Begins	**October 2007**		**October 2008**		**October 2009**	
Beginning Stocks	5,105	4,005	4,809	4,769		3,668
Beet Sugar Production	17,400	17,400	16,500	16,586		16,686
Cane Sugar Production	340	340	314	314		314
TOTAL Sugar Production	**17,740**	**17,740**	**16,814**	**16,900**	**0**	**17,000**
Raw Imports	2,950	2,950	2,710	3,350		3,856
Refined Imports (Raw Value)	700	700	644	644		644
TOTAL Imports	**3,650**	**3,650**	**3,354**	**3,994**	**0**	**4,500**
TOTAL SUPPLY	**26,495**	**25,395**	**24,977**	**25,663**	**0**	**25,168**
Raw Exports	5	5	5	5		5
Refined Exports (Raw Value)	1,381	1,381	1,374	1,690		1,500
TOTAL EXPORTS	**1,386**	**1,386**	**1,379**	**1,695**	**0**	**1,505**
Human Domestic Consumption	18,800	17,740	18,900	18,800		18,800
Other Disappearance/Bioethanol	1,500	1,500	1,500	1,500		1,500
Total Disappearance	**20,300**	**19,240**	**20,400**	**20,300**	**0**	**20,300**
Ending Stocks	4,809	4,769	3,198	3,668		3,363
TOTAL DISTRIBUTION	**26,495**	**25,395**	**24,977**	**25,663**	**0**	**25,168**

Source: Post estimates from EU FAS posts

Market situation in selected member states

<u>Austria</u>

In 2008, good planting and harvesting conditions led to high sugar beet yields of 71.9 MT/ha. In total, sugar beet production reached 3.1 million MT. Sugar content reached 16.98 percent and was lower than the long-term average. Acreage and yields for 2009 are forecast to decline slightly.

The only sugar producer in Austria is Agrana Zucker GmbH. The company has two sugar plants in Austria (Tulln and Leopoldsdorf) with a production capacity of about 400,000 MT. The plant in Tulln produces sugar varieties for household consumption. Sugar deliveries from Leopoldsdorf are mainly to industrial customers and are either loose or packaged.

During MY 2008/09, the two Austrian sugar plants processed 2.9 million sugar beets into 444,000 MT sugar (MY 2007/08: 383,324 MT sugar). For the first time Agrana processed 1,823 MT of organic sugar from 15,065 MT of Austrian organic sugar beets in the Czech sugar plant Hrusovany.

Benelux

As expected, prices are decreasing.

In December 2008, the Belgian bioethanol factory Biowanze (Sudzucker) started production. Production is currently reported to be limited and should increase incrementally. The full capacity of the plant (235,000 MT bioethanol per year) is expected to be attained in 2010 at the earliest. One third of the feedstock is sugar beet and two-thirds grains. At full capacity this would imply a use of around 400,000 MT of sugar beets.

In order to survive, the main goal of the Benelux sector is to increase efficiency and focus on quality. Currently, only two sugar plants are operational in the Netherlands. Of the five Belgian plants, three have ceased production and the two remaining plants are expected to continue production. In Belgium, around 50 percent of the farmers have ceased planting sugar beets. Only farmers with a sizeable crop and who are close to a factory continue. The sector generally asserts that the worst effects of the reform have been felt, and that production will stabilize.

Bulgaria

Bulgaria has ceased to produce sugar. Production declined sharply during the last 10 years.

There is no ethanol production plant which uses sugar, and no user of such ethanol.

The sugar reform did not impact Bulgaria significantly as there has been no developed industry there. A few plants import brown sugar and process it into white sugar mainly for the domestic market. In 2008, exports increased to neighboring Romania and Greece.

Czech Republic

In MY 2008/09 the harvested area of sugar beets was 50,380 ha, from which almost 43,000 ha was harvested for sugar production with a yield of 54.4 MT/ha. The remaining 7,800 ha of sugar beets was harvested for industrial sugar and ethanol production. Stabilization of planted areas is expected in the coming years.

2.3 million MT of sugar beets was used for sugar production with sugar content of 17.75 percent. Sugar production reached over 414,000 MT of sugar and over 90,000 MT of molasses, representing the lowest production level in several years.

In contrast to neighboring countries, production, distribution and enrichment of biofuels are not subsidized in the Czech Republic. As a result, bioethanol is imported to the Czech Republic mainly from Brazil and Pakistan, where production costs are lower (imported bioethanol price is 14 CZK/litre, domestically produced bioethanol price is 17 CZK/litre). Imports of bioethanol to the Czech Republic therefore increased significantly.

The Czech Republic plans to start using high-percentage biofuels this year. E85 and E95 will be exempted from the excise tax (by using refunds). An amended Excise Taxes Act should come into force during the middle of 2009.

Following the reform, the sugar sector is now expected to stabilize. Only 7 sugar plants (from 5 companies) were producing in MY 2007/08 and MY 2008/09, as compared to 11 in MY 2005/06. Output capacity of these sugar plants is calculated at 35,800 MT of sugar, which is not expected to decline further.

With the withdrawal of Eastern Sugar, the Czech Republic lost a quota amounting to 102,000 MT. There has been no decrease in production quotas for those companies which are currently producing. Sugar producers have purchased an additional quota of 20,070 MT.

Sugar beets area that was reduced as a result of the reform is used primarily for poppy seed with some rapeseed and soybean production.

Finland

Finnish sugar production has declined significantly as a result of the sugar reform. In addition to EU farm specific top up support for sugar beet, Finland supports sugar beet production through its national aid for crop production. Support varies between €98/ha and €350/ha, as a function of geographical area. Without this extra support, Finnish sugar production would be even lower than today. Finland's white sugar yield per hectare is the lowest in Europe. The Finnish sugar company Sucros decided last year to continue production at its plant in Sakyla for the next seven years which has had a positive impact on Finnish sugar beet growers. Finland's sugar production quota set by the EU is around 81,000 MT annually which corresponds to the quantity of expected production from the Sakyla plant (the only sugar plant in Finland). The German company Nordzucker owns 80 percent of Sucros.

Although sugar beets are one of the feedstocks used for ethanol production in Finland, the developments in the ethanol sector have limited impact on Finnish sugar production. The amount of ethanol produced in Finland remains very small.

France

After a sharp decline in MY 2008/09 due to the implementation of the new sugar regime which led to the closure of several sugar plants, beet plantings are expected to increase slightly in MY 2009/10 driven by the demand for ethanol which gave better than anticipated prices for out of quota beets in MY 2008/09 as well as lower prices for alternative spring crops including corn. The French Sugar Beet Producers Association asserts that planting conditions were optimal in March and April 2009.

Boosted by favorable weather conditions throughout the growing period, sugar beet production in MY 2008/09 reached another record effective yield of 70.83 MT/ha (or 82.7 MT/ ha with a sugar content of 16 percent) and an average sugar content of 18.88 percent.

The MY 2008/09 price for out of quota beet averaged €21 to €22/MT, fluctuating between sugar companies. The French Sugar Beet Producers Association estimates the cost of production at €23/MT.

While the use of raw sugar (produced from out of quota beet) for production of alcohol and ethanol declined from 900,000 MT in MY 2007/08 to 800,000 MT in MY 2008/09, sugar beet molasses use increased by 16 percent. This was driven by the Origny Sainte Benoite plant (belonging to the cooperative TEREOS) reaching full production. However, due to the doubling of the production of ethanol from grains, sugar beet represented less than 63 percent of ethanol feed stocks in MY 2008/09, compared to 68 percent in MY 2007/08. As no new plant for ethanol production from sugar beet is planned for the coming years, the share of sugar beet in ethanol production will continue to decrease.

All French sugar companies participated in the sugar industry restructuring scheme. In total, 683,000 MT of in-quota sugar production was renounced, or 18.78 percent of all quotas in the previous regime. Five plants were closed in MY 2007/08. France is among the most competitive EU sugar producing Member States, and has lost less of its quotas than others.

Germany

The area of sugar beet cultivation is expected to increase to 400,000 ha in 2009 from 363,800 ha in 2008. From this area, beets for ethanol production should rise to 60,000 ha from 40,000 ha in the previous year.

Beet harvest should reach 26 million MT in 2009, increased from 23.6 million MT in 2008. Refined sugar production is forecast to increase to 4 million MT (4.35 million MT in raw equivalent) in 2009 from 3.6 million MT (3.95 million MT in raw equivalents) in 2008.

Some 400,000 to 450,000 MT of raw sugar was used in ethanol production in 2008. This is forecast to increase in 2009 to around 600,000 MT as a consequence of Suedzucker adding a processing plant.

The reform of the EU sugar regime resulted in a quota reduction of 20.7 percent for Germany. Four out of 24 sugar processing plants have been closed during the past four years. Currently, four sugar companies remain active in the German market: three large scale companies, Suedzucker, Nordzucker and Pfeiffer & Langen, and the Dutch company, Suiker Unie which operates only one sugar mill in Northeastern Germany. The German Sugar Producers Association is confident that the restructuring process has reached its goal without requiring further significant changes in the foreseeable future. However, it remains to be seen how much sugar will be finally imported from LDCs when the Everything-but Arms agreement is fully operational.

Greece

Area planted to sugar beet planted in spring 2009 is estimated to reach between 24,000 and 25,000 ha compared to 16,000 ha in 2007, 21,000 in 2008 and 45,000 in 2005. National average ‘weighted’ yield is reported to be 75.0 MT/ha. In a good year, yields can exceed 90.0 MT/ha in certain areas. Production of beets in 2008 is estimated at 1,730,000 MT, increasing to 1,800,000 MT in 2009. The Hellenic Sugar Industry (HSI) implements a variety of policy incentives to grow beets. Additionally, a reduction of spring crop acreage in 2009 (mainly corn) will result in an increase of sugar beet acreage.

Farmers sign contracts with the HSI based on the Greek production quota which is set at 158,702 MT of white sugar. Reducing the quota by 50.2 percent under the reform has resulted in the HSI benefitting from an amount of €118 million which is used to strengthen and re-orient its investment plans.

Greek sugar beets are grown in the prefectures of Larissa in Thessaly, Imathia and Serres in Macedonia, and Xanthi and Evros in Thrace. Having shut down the Larissa and Xanthi plants, the crop is significantly reduced in those regions. Since 2007 during each year's campaign, HSI implements a 'balanced sugar beet distribution' plan in an attempt to keep the remaining three sugar plants operational and satisfy the highest capacity available.

Prior to the reform, HSI operated five plants in Greece. Today only three Greek plants are left, although HSI also operates two plants in Serbia. The company's main focus is the production and trade of white crystal sugar and its by-products HSI is the sole sugar producer in Greece. Before the implementation of the reform, HSI provided employment for about 335,000 beet growers and 52,000 employees for the five sugar plants. Today, beet farmers do not exceed 100,000 and sugar factory employees are less than 20,000 (including seasonal employees).

Currently, negotiations are in progress to achieve a joint venture between HSI and Eurosugar Group.

In May 2007, HSI began seeking international investors to provide capital to transform its sugar factories in Larissa and Xanthi into bio-ethanol production units, at an estimated cost of €200 million. The company aims to produce 300,000 cubic meters of bioethanol annually, in conformity with the EU directive for the production of 5.7 percent of local fuel consumption by 2010 (set at 10 percent by 2020). To date there has been no progress. Due to the high grain prices in MY 2007/08 and the economic crisis which followed, there is no real interest from the private sector to invest in bioethanol in Greece.

Total needs (all consumption plus stocks) of centrifugal sugar in Greece fluctuate between 450 and 600,000 MT per year. All consumption depends on domestic crop output and demand from the food industry, canned fruit in particular. Before the implementation of the reform, Greece was self-sufficient and a quantity of between 60 and 80,000 MT of sugar was typically exported. During MY 2007/08 and further to the small crop in 2007 Greece has imported around 60,000 MT from Serbia and another 45,000 MT from Germany and France (swap types) to satisfy domestic needs within 2007, as well as significant quantities from UK, Bulgaria and third countries.

The National Statistical Service reports that Greece exported 53,200 MT of beet sugar valued at 49.7 million USD in calendar year 2008. Total imports of sugar in the same year were 272,000 MT valued at 240.6 million USD.

There are over 25 sugar trading businesses in Greece. The largest wholesaler of beet sugar in the country is HSI selling at €0.93/kg, while the retail price is set at €1.00/Kg. Imported beet sugar is priced at €0.76/Kg (wholesale basis). Imported sugar cane is priced between €1.15 to €1.55/kg according to refining, origin, package and additives (flavorings or colorants).

Italy

The reform has impacted Italy significantly, leading to a further reduction of area and production.

Preliminary estimates for MY 2009/10 suggest a limited recovery of the planted area, which should reach about 68,000 ha, or 8 percent more than last year. This is largely due to the sharp drop in the wheat area reported last fall (resulting from high rainfall through mid-February in most producing regions). Planting was completed by the end of March, with no significant problems.

The sugar beet sector in Italy is now marginal, as Italy satisfies its consumption needs through imports from other EU countries. Currently, there are only four sugar refining plants, three of which are in northern Italy and one in the south.

Based on the planting estimate, an increase in production to around 500,000 MT may be assumed.

Expected prices of sugar beets for the next MY are around €35/MT (on the basis of 16 percent sugar content), including €10 of production aid (€6 from EU and €4 from national sources). In addition, growers will receive €3.5/MT within the framework of the former Article 69 measures [17] . No use of sugar beets is anticipated for bioethanol production in Italy.

Poland

The reduction of the sugar production quota and minimum sugar beet purchase price consequent to the reform has resulted in a lower sugar beet area in Poland. This trend is likely to continue.

In MY 2008/09, sugar beet cultivation area amounted to 170,000 ha and was 31.17 percent lower than the previous year. The area is forecast to increase slightly to 180,000 ha in MY 2009/10.

Production of sugar beets in MY 2008/09 is 9 million MT from which 1.4 million MT of sugar is produced (as compared to 1.9 million MT in MY 2007/08). In MY 2009/10, production of sugar beets is expected to increase to 9.16 million MT. Production of sugar remains constant at 1.4 million MT.

Minimum buying-in price of in-quota sugar beet for the 2008 crop amounts to €27.83/MT at 16 percent sugar content (compared to €29.78/MT in 2007). Average sugar beet buying-in price in October 2008 was €27/MT, 12.7 percent lower than in the respective period for 2007. Compensation, which is aimed at covering 64.2 percent losses due to buying-in price reduction, amounts to €11/MT of in-quota sugar beet and will be paid until June 30, 2009.

Domestic sugar prices at retail level are systematically decreasing (from €0.86/kg at the beginning of 2008 to €0.74/kg at the end of 2008).

Sugar beets producers were promised by the government that sugar plants would be transformed into bio-ethanol plants. However, this is unlikely to occur. The additional planting area available is used for high quality wheat and corn (for new biogas plants co-financed from the National Restructuring Program: January 2009 – September 2010). EC Decision 2008/600/EC [18] provides that financial aid for Poland amounts to €34,412,305 (MY 2008/09).

Krajowa Spolka Cukrowa 'Polish Sugar' (the leading sugar manufacturer in Poland with 39 percent of the market) is discussing with France's Tereos cooperation on refining sugar cane in Poland and producing biofuels. The companies are also discussing potential trade cooperation as well as joint production of biogas or bio-ethanol. 'Polish Sugar' has cut back on production of beet sugar and therefore has spare capacity under EU production quotas. 11 of its 18 sugar factories were closed in MY 2007/08 due to EU production limits which capped companies' output at 550,000 MT. However, in MY 2008/09, production will fall short of that level (465,000 MT). 'Polish Sugar' is reportedly seeking opportunities to rebuild its business.

The reform has accelerated the sugar industry restructuring process. In MY 2008/09 only 19 sugar plants process beets into sugar (compared to 29 plants in MY 2007/08, and 31 plants in MY 2006/07). During the first half of 2008, the economic and financial results of the sugar industry deteriorated significantly. The net loss amounted to 15.68 percent of revenues, while in the first half of 2007 the loss amounted to 5.59 percent. The share of enterprises achieving net profit in the overall number of enterprises decreased to only 23.5 percent (previously 66.7 percent).

Consumption of sugar remains stable at between 1,625,000 and 1,630,000 MT. As a result of the reform, Poland became a sugar net importer in 2009 (the last time being in 1995).

<u>Portugal</u>

Portugal completely abandoned domestic sugar production in MY 2008/09.

<u>Spain</u>

After the reform, sugar beet area has suffered a continuous decline in order to adapt to the decreasing industry capacity caused by restructuring. This trend will continue in MY 2009/10, as the industry is still reorganizing with farmers entering into contracts with industry based on available quota. From MY 2009/10 on, acreage planted to sugar beet and sugar production is expected to remain more stable based on the stability of the sugar scheme.

Before the reform there were three sugar beet areas (North, South and Central) in Spain, of which only two (North and South) remain. The area planted with sugar beet is larger in the North (for MY 2009/10, 35,000 ha are expected) than in the South (for MY 2009/10, 5,000 ha are expected). Yields are higher in the North due to effective irrigation.

In the North, sugar beets are planted in spring and harvested in winter. In the South, sugar beets are planted in winter and harvested during the summer.

Due to unfavourable weather conditions, the MY 2008/09 Northern winter harvest and spring sowing were delayed. Reduced winter sowing of grains, together with low grain prices, encouraged farmers to increase spring sowing of sugar beet in the North. Southern sugar beets for MY 2008/09 will be harvested next summer with MY 2009/10 plantings taking place next winter.

Sugar cane cultivation was abandoned in MY 2006/07 with the closing of the Guadalfeo processing plant in Granada. This was the only Spanish processing plant with the capacity to process sugar cane. At present, there are no cane sugar refiners or processors in Spain.

However, a sugar refinery plant is being built in Cadiz, close to the port. This factory, owned by Azucarera Ebro, will refine cane sugar. The plant capacity will be 400,000 MT. The raw sugar will originate in developing countries under a Free Trade Agreement (FTA) and Illovo sugar will be the main supplier. The agreement enters into force in October 2009 and it is expected that the sugar cane refinery will operate by the end of 2009.

The Cooperative ACOR has reached an agreement with France's Tereos to refine cane sugar from Reunion Island and Mozambique. If technical modifications are completed by MY 2009/10, ACOR plans to process sugar from local sugar beets from the start of the Northern area harvest until January. The plant would then refine 120,000 MT of imported cane sugar from January until June or July.

The minimum price for in-quota sugar beet (16 percent sugar content) in MY 2008/09 was €27.8/MT. For MY 2009/10, the minimum price is set at €26.29/MT.

Additionally, as provided by former Article 69 measures, sugar beet growers have received an additional coupled payment since MY 2006/07. This coupled payment is paid only if a minimum quality level is achieved (13.5 percent sugar content and less than 25 percent dirt). Since Southern sugar beets are harvested after the deadline for CAP payments (June 30), the calculation of this payment takes into account Southern sugar beet production from the previous marketing year.

Since more than 50 percent of production was abandoned, Spanish sugar beet farmers will receive compensatory payments from EU funds of €6.6/MT of sugar beet from MY 2009/10 until MY 2013/14. To ensure profitability, the processing industry reached an agreement to pay €9.03/MT so that the sugar beet price for farmers would amount to €40/MT. In MY 2009/10, as a result of aid from both the EU and the Autonomous Communities, this additional industry payment will not be required. From MY 2010/11 onwards, an additional payment of €2.3/MT will be allocated to achieve a sugar beet price of €40/MT.

Following the abandonment of more than 50 percent of the national sugar quota, the two Autonomous Communities that produce sugar, Andalucía in the South and Castilla y Leon in the North, will subsidize sugar beet production to improve competitiveness. The payment received by sugar beet producers will be €3/MT in Castilla y Leon and €4/MT in Andalucía.

Domestic sugar prices at the retail level in 2008 were approximately €0.73/kilo. At the wholesale level, prices averaged €640/MT.

Although sugar beet yields in Spain are high, costs are not sufficiently competitive to produce ethanol from sugar beet.

In Spain, the sugar reform encouraged the industry restructuring process. Spain's white sugar quota has been reduced by more than 50 percent for MY 2009/10 in comparison to MY 2005/06. For MY 2009/10, Spain's sugar quota is set at 498,480.2 MT.

There are only two major companies within Spain's sugar processing sector: ACOR, an agricultural cooperative, and Azucarera Ebro, which was recently acquired by Associated British Foods (ABF). The number of plants operated by these two companies has dropped from 12 to 5 since the sugar reform. ACOR completed the reorganization process in two years, while it took four years for Ebro to restructure its plants.

At present, five sugar plants remain in Spain. Four of them are located in the North area: Miranda (Burgos), Toro (Zamora), La Bañeza (Leon) belonging to Ebro, and Olmedo (Valladolid) from the cooperative ACOR. In the South area the one remaining sugar processing plant is located in Guadalete (Cadiz).

Both total sugar consumption and per capita sugar consumption are declining. Apparently, they are not being substituted by alternative artificial sweeteners as their consumption is similarly declining.

According to industry sources, domestic consumption of sugar is approximately 1.3 million MT with 80 percent consumed through agro-food industries and the remaining 20 percent through direct consumption.

Slovakia

The Statistical Office of the Slovak Republic reports that the total harvested area decreased in 2007 by 8,820 ha to 18,850 ha. Production also decreased by 524,410 MT to 846,500 MT. Unfavorable weather conditions decreased the average yield per ha to 44.89 MT, the lowest since 2004.

According to the Slovak Sugar Union data, 862,700 MT of sugar beet (15.79 percent sugar content) was produced on the area of 18,949 ha in 2007. Yields for production of polarized sugar and white sugar reached 7.19 MT/ha and 6.29 MT/ha respectively.

The sown areas census issued by the Statistical Office of the Slovak Republic reports that 10,900 ha of sugar beet was sown, and estimates a sugar beet production of 572,600 MT with a yield of 52.54 MT/ha.

The Slovak Sugar Union shows that sugar beet was sown on 11,000 ha in 2008. It is estimated that 800,000 MT of sugar beet with a sugar content of 16.68 percent was produced, having an estimated yield of 63,33 MT/ha.

In the first nine months of MY 2007/08, Slovakia reached a positive foreign trade balance of 28,719 MT. 42,865 MT of sugar was imported and 71,584 MT was exported.

It is not anticipated that ethanol will impact sugar production.

Slovenia

There has been no sugar beet or sugar production in Slovenia since 2007.

Sweden

Since grains are used as feedstock for ethanol in Sweden, developments in the ethanol sector have not had a significant impact on sugar production. Good weather conditions in Sweden led to large beet volumes in 2008 and sugar production was well above the national quota of 293,000 MT.

On March 2 this year, the German company Nordzucker acquired Danisco Sugar. The company is now conducting business as a wholly owned subsidiary under the new name Nordic Sugar A/S. All employees at Nordic Sugar sites in Denmark, Sweden, Finland and Lithuania remain in employment and all plants continue to operate.

UK

It is expected that the area planted with sugar beet will decline again in 2009 to 115,000 ha and yields are unlikely to reach the record highs seen last summer. As such, the anticipated yield of 57 MT/ha should result in a harvested production of 6.6 million MT.

The UK's only bioethanol plant which processes sugar beet was officially opened by British Sugar in September 2007. Located alongside the world's largest beet sugar factory at Wissington, Norfolk, it is running at full capacity producing 55,000 MT of bioethanol per annum from 700,000 MT of 'out of quota' sugar beet (due to price).

Prices

The Harmonized Indices of Consumer Prices [19] (HICPs) food index for EU 27 demonstrates an increase of 2.8 percent over the period February 2009 – March 2008. By way of comparison, the HICP all items index increased by 0.9 percent over the same period.

Demand for sugar (for human consumption) tends to be inelastic as the sweetener is an inexpensive dietary component. Given the reduced supply, it is anticipated that the market for sugar will be bullish. Available historical price data for sugar are set out below:

Average price for white sugar within the Community
Ex-work prices for homogeneous granulated crystal, standard quality, in bulk or bags

Prices communicated by EU sugar producers and refiners (€/MT)

	Selling Prices	
	Sugar	Industrial sugar
	Average weighted by quantities	Average weighted by quantities
2006		
July	630	284
August	634	288
September	636	287
October	632	286
November	633	294
December	632	294
2007		
January	629	284
February	629	288
March	628	283
April	627	298
May	625	293
June	622	297
July	621	301
August	620	319
September	619	305
October	617	287
November	616	277
December	618	278
2008		
January	612	289
February	596	271
March	604	271
April	603	261
May	606	264
June	607	263
July	598	263
August	601	263
September	595	267

Source: European Commission

Reference price for white sugar (€/MT)

July 1, 2006 to September 30, 2008: 631.9

October 1, 2008 to September 30, 2009	541.5
From October 1, 2009	404.0

Average price for industrial white sugar within the Community

Prices at destination for homogeneous granulated crystal, standard quality, in bulk or bags

Prices communicated by EU yeast and chemical industry (€/MT)

	Purchase Prices
	Average weighted by quantities
2007	
July	356
August	352
September	304
October	419
November	417
December	482
2008	
January	386
February	435
March	388
April	318
May	329
June	319
July	338
August	332
September	332

Source: European Commission

[1] The 2006/07 marketing year was 15 months long, from July 1 – September 30. From 2007/08 on, the MY is October 1 – September 30.

[2] European Commission: "EBA" – Everything But Arms Initiative: Special Arrangements for Least Developed Countries http://ec.europa.eu/trade/issues/global/gsp/eba/index_en.htm

[3] EU Agriculture Council: Meeting with the ACP Ministers Responsible for Sugar 24 January 2005 http://www.acpsugar.org/docs/24tradedimensions.pdf

[4] European Commission: The Common Organization of the Market in Sugar 2004 http://ec.europa.eu/agriculture/markets/sugar/reports/descri_en.pdf

[5] European Communities — Export Subsidies on Sugar Summary of the Dispute to Date http://www.wto.org/english/tratop_e/dispu_e/cases_e/1pagesum_e/ds266sum_e.pdf

[6] Proposal for a Council Regulation establishing a temporary scheme for the restructuring of the sugar industry in the European Community and amending Regulation (EC) No 1258/1999 on the financing of the common agricultural policy {SEC(2005) 808}

[7] European Federation of Food, Agriculture and Tourism Trade Unions online information. Viewed at: http://www.effat.org/files/a174b08f71cbfb8e18b46f0265e3801d_1149432828.pdf

[8] DG Agriculture: Prospects for agricultural markets and income 2007-2014 http://ec.europa.eu/agriculture/publi/caprep/prospects2007a/index_en.htm

[9] MY 2006/07 lasted 15 months in accordance with Council Regulation (EC) No 318/2006

[10] Reg. 1234/2007, Art. 153

[11] Bulgaria, Finland, France, Italy, Portugal, Romania, Slovenia and the United Kingdom.

[12] Food Navigator: Tate & Lyle closes in on Israeli sugar deal http://www.foodnavigator.com/Financial-Industry/Tate-Lyle-closes-in-on-Israeli-sugar-deal

[13] European Commission: The Green Paper on agricultural product quality policy http://ec.europa.eu/agriculture/quality/policy/consultation/greenpaper_en.pdf

[14] European Commission: Reg. 1234/2007, Annex XX, Part III http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2007:299:0001:0149:EN:PDF

[15] European Commission: Reg. 1528/2007, Art. 10 http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2007:348:0001:0154:EN:PDF

[16] Products with CN Codes: 1704 90 99, 1806 10 30, 1806 10 90, 2106 90 59, 2106 90 98.

[17] The 'Health Check' of the Common Agriculture Policy provides that member states are to be given expanded and more flexible options for targeted Pillar 1 (direct payment) support through filtering off up to 10 percent of the Single Farm Payment (SFP) amounts in each member states envelope – See GAIN Report E49014

[18] Commission Decision of 14 July 2008 fixing for the marketing year 2008/09 the amounts of the aid for diversification and the additional aid for diversification to be granted under the temporary scheme for the restructuring of the sugar industry of the Community

[19] Harmonized Indices of Consumer Prices (HICPs) are used in the assessment of inflation convergence as required under Article 121 of the Treaty of Amsterdam. They are compiled on the basis of a legislated methodology, binding for all Member States.